H1 FY24 INVESTOR PRESENTATION COMMENTARY

Friday, 23 February 2023

PEXA announces solid 1H24 results, continuing to address strategic priorities

Melbourne, Australia – PEXA Group Limited (**PEXA** or the **Group**), a world-leading digital property exchange platform and property insight solutions business, announced its half-year results for the 6 months ended 31 December 2023 (1H24). Accompanying commentary from Group Managing Director and Chief Executive Officer Glenn King and Chief Financial and Growth Officer Scott Butterworth is provided below.

Group Managing Director and Chief Executive Officer, Glenn King

Good morning. I'm Glenn King, PEXA's Group Managing Director and Chief Executive Officer, and with me this morning is our Chief Financial and Growth Officer, Scott Butterworth.

Thank you for joining us for PEXA's half year results for the 2024 Financial year.

Before I start please note Slide 1 outlines the important notice disclaimer information.

Slide 2:

Before I begin, in the spirit of reconciliation, I would like to acknowledge the Traditional Custodians of country throughout Australia and their connections to land, sea, and community.

We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

Slide 3:

Today's briefing will begin with an overview of PEXA's financial performance over the last half and then I will provide a brief update on progress against our FY24 strategic priorities.

Scott will then walk you through the performance and financial results in detail and I will wrap up with a perspective on the outlook for H2. Then we will open for questions.

Slide 4:

Turning to Slide 4. It's been a strong PEXA first half financial performance with a focus on delivery and efficiencies.

PEXA Group revenue for the half increased 16% to $163m compared to the prior corresponding period.

PEXA Group operating EBITDA increased by 12% to $59m, driven by the strength of the Exchange which produced an operating margin of 55%, up 3 percentage points.

At a Group level, our operating margin has remained above target at 36%.

Our NPATA was $15m. We believe this measure is a more realistic view of our underlying earnings as it strips out historical acquired amortisation.

Slide 5:

Turning to Slide 5. The slide covers several key points for the half. For example:

1. The PEXA Exchange business continues to perform strongly in terms of market position and financial performance as evidenced by our 1H24 Operating EBITDA of $83m and 55% margin.
2. PEXA Digital Growth is on track for Operating EBITDA break-even for month of June with productivity improvement and growth in products per customers.
3. PEXA International / UK has what it needs to scale with the significant distribution leverage covering sizeable UK market share of lenders and conveyancers through the Smoove and Optima Legal acquisitions, and we continue to make progress with 2 top 10 banks verbally committed to the PEXA platform and working with us. We will provide a further UK market update in the last quarter of FY24.
4. PEXA is well placed to execute upon its strategic objectives, and
    - our FY24 guidance is re-affirmed;
    - there will be steady increase in productivity including through AI; and
    - we have no current expectation for material acquisitions.

Slide 6:

Turning to Slide 6. This slide provides an overview of our business strategy, objectives, and our candid assessment of our progress to date. For example, you will see on this slide our assessment that we would have expected more progress with Value Australia. So whilst we are making good progress across the Group there is more to do. I will now provide more detail on each business unit in the following slides.

Slide 7:

Turning to Slide 7. The PEXA Exchange business maintained and strengthened its leading platform position. Let me touch on a couple of points referenced on the slide as evidence.

Firstly, the PEXA Exchange plays a critical role in almost 90% of all property transactions undertaken in Australia. And we plan to grow the possible transaction coverage with the launch of the Western Australia Duty Hub and the rollout of e-conveyancing in Tasmania during 2024/25.

Secondly our market strength is evidenced by our obsessive focus on the customer experience as shown by our 93% customer satisfaction score. Our customer performance is supported by our PEXA Exchange API integration to enable automation and better customer outcomes. As an example, one major customer has integrated with more than 20 of our PEXA APIs to improve customer experience.

And the last point I would like to make on this slide is the designation of the PEXA Exchange by the Department of Home Affairs as Critical Infrastructure. This highlights the importance and leadership of PEXA to the Australian property sector.

Slide 8:

Turning to Slide 8.

Our PEXA Digital Growth business is building revenue and strengthening customer relationships.

For example, the strengthening of our customer relationships is illustrated on the slide through the take up of PEXA services such as PEXA Planner, Tracker, and Allocations. These services continue to be adopted by our Bank customers. Another example of customer product growth is through our partnership with SendFX where over 600 of our practitioner customers are now registered with this new FX service.

And the growth of our Digital revenue is demonstrated by the commercialisation of the Value Australia service through its first Automated Valuation Tier 1 bank customer that has now signed on an initial 5-year revenue deal.

Across the entire PEXA Digital Growth business we are seeing better customer, financial, and productivity outcomes.

Slide 9:

Turning to Slide 9. We believe we are well placed to scale PEXA in the UK and we are making good progress against our UK priorities. We remain confident that the UK is an attractive market to PEXA due to the financials, our unique offer, the market size and the needs of stakeholders.

Let me touch on a couple of points as referenced on the slide.

Firstly, our PEXA platform is established, unique and performing well, and we have had several FIs complete testing with PEXA Pay including two of the top ten lenders - note those that have PEXA Pay tested represent approximately 20% of the UK mortgage flow.

And as Joe Pepper, our UK CEO, said last November at the Capital Markets Day, "We now have verbal agreement from two of the top 10 lenders to use the PEXA technology to deliver the 24-to-48-hour remortgage product by the middle of calendar year 2024 subject to their own technology roadmaps."

And this delivery remains our expectation. Please note whilst I would like to name those two top lenders, at this stage I am unable to elaborate further.

Secondly, the strength of our technology and PEXA UK platform progress is also demonstrated by Shawbrook Bank's successful completion of a market-leading re-mortgage transaction in 36-hours. And the PEXA platform delivery remains on track with our UK Sale & Purchase build currently underway.

Thirdly, through the acquisition of Optima Legal and Smoove we now can leverage distribution scale in terms of FI and Conveyancing customers, and mortgage processing flow. And during the half we continued the integration of Optima Legal into the PEXA Group, generating efficiencies, and working toward the conversion of the customer base into the PEXA tech.

Slide 10:

Turning to Slide 10. This slide further illustrates what I've said in the prior slide – the UK distribution capability we have acquired enables us to meaningfully leverage our market position and customer relationships. The combined PEXA, Optima Legal and Smoove business deals with Banks that represent approximately 71% share of the lending market, whilst Smoove brings proven distribution and access to conveyancers.

A focus for us is the improvement in the Optima Legal and Smoove financial performance. Subject to market conditions, we expect improvement over the next 12-18 months and also reducing the overall UK CAPEX expenditure in the forward years.

Importantly, Joe Pepper an the UK team have made a goo start in bringing our UK businesses together, strengthening customer relationships, productivity improvements and execution. And our expectation is for our UK business to demonstrate continued positive momentum.

Slide 11:

Turning to Slide 11. Before I hand over to Scott, I wanted to highlight our focus on a sustainable business. This slide illustrates examples of progress for the first half of the year. This includes our continued investment in our people through partnerships with leading institutions such as Victoria University, Grattan Institute and Melbourne Business School; and our focus on productivity, capital management and ESG.

With that I will hand over to Scott to walk through the financial details – starting at slide 12.

Slide 12:

Chief Financial and Growth Officer, Scott Butterworth

Thank you Glenn. And thanks to all of you who are joining us today for your interest in our company. It is very much appreciated.

Before going through the details of our financial performance, I would like to provide some introductory remarks.

First, as you know, we have acquired several businesses over the past few halves in Australia and the UK. To assist with understanding our relative performance over time, I will generally be speaking to a pro forma view of our business. This pro forma view assumes that we owned ID, Land Insight and Optima Legal for the whole of 1H23 and 2H23.

Second, given the Group's growth, we have provided additional disclosures about our various businesses and other matters such as interest income and amortisation. Much of this material can be found in the appendices to this presentation.

Slide 13:

I will start with Slide 13, which summarises the operating results for the Group on a pro forma basis. Key points to note are as follows:

- Our Group operating EBITDA margin was 36%, above our guidance range of 35%. Operating EBITDA increased by 10% on 1H23 and 27% on 2H23.
- This was underpinned by a 7% revenue increase over pro forma 1H23, and a 14% increase in revenue over 2H23. The revenue print of $163m was a function of strong Exchange revenue growth, supported by an end-on-end increase in Digital Growth revenues, offset by lower International revenues.
- Expenses were well controlled on a PCP basis, reflecting the results of our productivity programs. There was an uptick in expenses relative to 2H23. This mainly reflected the impact of unwinding some one-off benefits that occurred in 2H23, and capability investments made in 1H24.
- We have pulled back the rate of growth in capex, which was $34m in the half, compared to $35m in 2H23 and $33m in 1H23.

I will now turn to Slide 14.

Slide 14:

This Slide deals with four items which impact NPATA and our statutory profits.

First, you can see that we incurred $15.4m of specified items in pre-tax terms, translating to a post-tax impact of $15m. Specified items are those which are notable by reason of their size, non-recurring or non-operating nature. The increase in these items relative to previous halves relates to the costs of acquiring Smoove, our restructuring program, and the costs of integrating Optima Legal.

Second, our amortisation charge increased by $7m relative to PCP. This was primarily due to the amortisation of new assets developed for the Exchange and International.

Third, you will see that our 1H24 net interest charge was only $2.6m. This was lower than in the previous two halves, despite the increase in our indebtedness during 1H24. This was because of the favourable dynamics associated with our Third-Party Moneys accounts, which I will discuss later in this presentation.

Lastly, you will see that whilst our income tax charge was lower than in 2H23, our effective tax rate remains high. This is primarily due to non-tax-deductible items such as certain M&A and share based payment expenses that were incurred in the half in Australia.

Slide 15:

You may be wondering about the likely extent of these items in 2H24. Our current views are set out in Slide 15.

Specified items are estimated as being in the range of $11-14m, reflecting further restructuring expenses, earn out costs and the impact of equity accounting for investments in our associates.

Net interest expense is expected to be between $3.5 to $4.5m, a small increase on the sum incurred in 1H24. This is mainly due to the full period impact of the loans drawn down over 1H24.

Amortisation is expected to be $45-47m, reflecting a full period of owning Smoove, as well as the amortisation associated with projects going live during the half.

Lastly, we are expecting a tax charge of between $3-8m. The range is driven by the level of non-deductible items that we may incur in the half, the split in business mix between the UK and Australia, and the treatment of carry forward tax losses in some parts of our business.

I will now go into the performance of each business in a little more detail, starting with the Australian Exchange business.

Slide 16:

Slide 16 provides important market context for the Australian Exchange. As the left-hand panel shows, overall 1H24 volumes have recovered towards those experienced in 1H23. Additionally, as depicted in the right-hand panel, product mix has worked in our favour over the half, with a shift towards more profitable transfer products relative to refi products.

Slide 17:

However, turning now to Slide 17, our view is that we need to remain cautious in our expectations for the property market. As you can see from the slide, the low point for transfers (our most profitable Exchange product) was in 3Q23 in all PEXA jurisdictions. However, whilst national transfer activity has recovered from these levels, it has not yet reached the previous peaks experienced in early fiscal 2022. In fact, in Victoria and NSW/ACT, transfer volumes remain below their earlier peaks by around 9% and 7% respectively.

Slide 18:

I will turn now to slide 18, which sets out the economic performance of the Exchange in the market context I have described. Several key points emerge from this Slide:

- As you can see, the operating EBITDA margin for this business improved sharply relative to 1H23 and 2H23, to reach 55.4%, just above our full year guidance range of 50-55%.
- The strong revenue growth experienced in the half was the major driver of the improved margin. This was primarily driven by the CPI-linked price increase which took effect from 1 July of last year. Additionally, as I have just touched on, volume and mix factors provided a tailwind during the half.
- We also supported our margin improvement by limiting PCP operating cost growth to 2%, relative to our observed cost inflation of 4% to 5%. However, expenses did tick up sharply compared to 2H23. This was largely driven by the unwind of certain one-off benefits achieved in 2H23, and 1H24 investments we have made in areas such as additional data and governance capabilities.
- You will see that capex was $19m during the half, driven by regulatory and resilience spend, and business investments such as inter-connectivity with key customers. Overall, the rate of growth in capex has slowed relative to 2H23, with the capex-to-revenue ratio falling by around 3 ppt.

Slide 19:

I turn next to a discussion of Digital Growth, starting with the market context for this business as described on Slide 19. The information on this slide has been provided on a pro forma basis to provide a like-for-like understanding of our performance over time.

The bottom right panel shows that we have three types of Digital Growth products: subscriptions (which forms the largest part of our revenues), transactions (where we get paid a fee per transaction), and projects (where we get paid a one-off fee for consulting-like services). Projects are often a precursor to on-going subscription fees.

In each case, our business starts with building a pipeline of opportunities. As you can see from the top left panel, there has been a solid growth in new opportunities in ID, which forms the biggest part of Digital Growth, with the average 2Q24 pipeline being 73% larger than in 2Q23. This improvement reflects product and capability investments we have made since acquiring the business at the start of 2Q23.

We then need to convert the proposals into new business. As you can see from the top right-hand panel, we are seeing improved win rates during 1H24, compared to those experienced in 1H23 due to improved products and service.

This means we have had a good step up in new business sales, as shown in the bottom left of this chart. Further, compared to 1H23, a greater proportion of these sales relate to new subscriptions, which together with a reduced churn rate in ID, has meant that subscriptions formed 74% of 1H24 revenues, compared to 63% in 2H23.

Slide 20:

I will now turn to Slide 20 which shows how Digital Growth has performed in the context of these dynamics. Overall, we are pleased with the business' progress, albeit we recognise there is more to do. There are two important points to note.

First, revenue increased by 7% on a pro forma basis relative to 1H23, reflecting the improved pipelines and win rates described earlier, and despite ~$600k of product and accounting headwinds as set out in the appendix on slide 51. You will see that revenue did decline relative to 2H23 pro forma. This was due to relatively lower carry-forward subscriptions as we exited 2H23, the head winds associated with pausing a low margin legacy product, and the unwind of a large one-off fee received in 2H23. Overall, we believe that we now have a re-based, higher quality, revenue stream as we head into 2H24.

Second, operating expenses fell sharply during the period. This was largely driven by taking overheads out of the businesses, removing duplication, and reducing property bureau costs as we exit the build and deploy stage for this asset. We have also been able to better leverage group-wide investments in capabilities such as OneData and Snowflake.

These actions have narrowed the operating loss for Digital Growth to about $6 million over the half. However, there has been a small increase in capex versus PCP. This largely reflects Value Australia development, partially offset by lower spend on our workflow-type products.

Looking forward into the second half, we generally expect stronger revenues in H2 vs H1 for ID, reflecting the buying cycle of many of its local government customers. We also expect promising progress for Land Insight and Value Australia as they build and convert their sales pipelines. It is also our belief that further efficiencies can be extracted from the business.

On this basis our forecasts indicate that we remain on track for Digital Growth to reach breakeven by June at the operating EBITDA level.

Slide 21:

I will turn now to our International operations, starting with a review of market conditions on Slide 21.

As you know, the UK experienced recessionary conditions in the second half of calendar 2023. This was reflected in market volumes for both re-mortgages and sale and purchase transactions, both of which are below recent trend levels. Additionally, whilst difficult to estimate with precision, there appears to have been increased use of cash back re-mortgage offers relative to the fees assisted re-mortgages of the type processed by Optima Legal.

Slide 22:

Another important factor impacting our International business is the status of our Financial Institution sales pipeline for the PEXA Exchange. We have depicted this pipeline on slide 22.

We have 15 non-Optima customers and 10 Optima customers in the sales pipeline, with the Optima customers more heavily weighted to mid-sized and larger institutions. We have had technical and discovery workshops with 12 of them. Additionally, eleven institutions covering about 20% of UK mortgage flows have tested the PEXAPay proposition with the Bank of England. Our transaction banking partner, Clear Bank, has also tested PEXAPay.

We are also in varying stages of negotiations, and working, with eight institutions regarding the use of the PEXA platform, with a current heavy focus on dealing with the two institutions that Glenn refererd to earlier.

Slide 23:

I will turn now to the performance of International as set out on Slide 23. Again, to assist in making a like-for like-comparison, I am presenting this information on a pro forma basis, assuming we owned Optima Legal for all 1H23. We have not made a pro forma adjustment for the effect of Smoove given that we only owned it for approximately two weeks in 1H24.

Excluding Smoove, as you can see International revenues fell due to lower Optima Legal outcomes. Around $3m of the revenue decline from 1H23 pro forma to 1H24 was due to market volume and mix factors. An additional ~$3-4m of revenue was lost over the same period due to a decline in Optima's market share. We believe much of this was due to the Capita technology incident at the end of 3Q23. However, these impacts were partially offset by favourable fee movements and interest earnings on trust account balances. Pleasingly, as we left the half, Optima's instruction volumes began to increase.

From an expense point of view, Optima Legal's operating costs were flat relative to PCP. However, we did incur opex relating to the integration of the business and its migration from the Capita environment.

We also incurred additional costs relating to the development of our platform. Some of these cost pressures were marginally offset by the staff reduction actions we executed at the end of the period.

Capex was down relative to PCP, but up sequentially, reflecting a change in expenditure mix away from the development of the remo platform towards Optima Legal integration spend and the commencement of work on our sales and purchase product.

As a result, operating cash outflows (defined as addition of capex and operating EBITDA) for International was about $30m. This included Smoove revenues of $0.5m, and Smoove's operating EBITDA loss of $0.3m. Whilst higher than in 1H23 and 2H23, the rate of growth in operating cash outflow has slowed. I will speak in a few moments of our views on the appropriate forward trajectory of this metric.

<u>Slide 24:</u>

Smoove will be an important part of our mix as we move into 2H24 and Slide 24 summarises its recent trading performance. As you can see from the left-hand panel, Smoove's operating losses have narrowed since 1H23, mainly due to lower labour costs.

The integration of Smoove has now started, as set out in the right-hand panel of the slide. We aim to substantially complete this by the end of FY25. We are also working to reduce losses in the Smoove business, which should also benefit from improved volumes and revenues as the UK economy lifts.

As Glenn has stated, Joe Pepper will be in Australia in 4Q24 to provide an update on these and other UK-related matters.

I will now turn to various aspects of our financial settings, starting with Slide 25.

<u>Slide 25:</u>

This Slide shows important drivers of our cash management over the half. As shown in the left-hand panel, our closing cash balance was $73m, reflecting the cash provided by the Exchange business and borrowings in the period, offset by the costs of funding Digital Growth and International, and the acquisition of Smoove.

Cash generation after net financing costs and capex was around $15m, broadly flat against the result in 1H23. This was equivalent to a free cashflow conversion outcome of just over 31%, 2.3 ppt down on the result in 1H23, largely due to higher capex and a lower working capital benefit in 1H24.

<u>Slide 26:</u>

The parameters shaping our Group balance sheet settings are laid out on slide 26. Importantly, as shown in the right-hand panel, whilst our average debt in the period was $334m, this was exceeded by the value of PEXA's own cash balances and the value of Third-Party Moneys.

From an own cash point of view, we benefited during the half from the interest received on funds drawn down from our lenders prior to the acquisition of Smoove.

A favourable tail wind was also provided by the earnings on Third-Party Moneys. This is cash belonging to customers deposited into PEXA administered accounts to facilitate settlement and disbursement activities. As such these balances will fluctuate with the volume of settlements and the average purchase price associated with them. We do not charge a fee for providing this service, which helps practitioners minimise the costs of running their own trust accounts. However, in return, we are entitled to receive the interest generated by these funds. We earn a floating rate on this account, which was materially higher than in 1H23 and 2H23, as was the average balance of the account, which stood at approximately $290m for the half. In effect, these Third-Party Moneys accounts provide a sizeable partial hedge to the floating rate interest expense exposure that we have in respect of our bank debt.

Slide 27:

This provides important context for understanding our financing ratios, which are set out in Slide 27. The top row of the chart provides our net debt to operating EBITDA and times interest cover ratios without taking account of the earnings from our various cash balances.

More relevantly, and in line with the way our bankers judge us, we have taken those receipts into account in calculating the ratios set out in the bottom row of this chart. As you can see, on this basis, our net debt-to-operating EBITDA ratio for 1H24 is 2.5x, which is 0.1 turns higher than in 2H23. Additionally, our times interest cover ratio on this basis was 17.2x, 2.2 turns better than was the case in 2H23.

I now want to conclude this review by touching on two Group-wide matters – productivity and capital management – that formed part of our performance management in the half.

Slide 28:

I turn now to Slide 28, which describes our Productivity Enhancement Program, or PEP. There are two key points to note with this slide.

First, we have completed the productivity actions that we foreshadowed at our November strategy day, and these will provide cash (opex plus capex) run rate savings of around $4m per half as we head into 2H24.

Second, we believe that we have additional opportunities to sensibly manage our cost base. These include strategic sourcing, leveraging automation and continuous, everyday, process improvement. Collectively, we are targeting further productivity actions in 2H24 with an exit run rate benefit of $3-4m per half as we leave 2H24.

Slide 29:

The other Group-wide issue that I want to touch on is contained in Slide 29. This depicts the capital management framework we are increasingly using to guide resource allocation to create value for our owners. The framework considers the margins in our business, the level of business sustaining and growth investments we make, and the maintenance of sound balance sheet settings. At present, we expect to use any surplus funds generated by this approach to reduce our net indebtedness.

You can see that we have set out the capital management targets (ex-Smoove) that we are working to over the course of FY24. Many of these targets have already been shared with you, however I would draw your attention to the 10-15% capex-to-revenue ratio target for the Exchange, and the 3x or lower net-debt-to-operating EBITDA ratio we are targeting. Pleasingly, we remain on track to meet the targets on this page in 2H24.

In pursuing these targets, we have no current plans for any material M&A transactions. However, we may make relatively small ‘top up’ investments in our associates to maintain their value. Of course, as you would expect, if highly value accretive, ‘on strategy’, opportunities present themselves to us, we may consider them.

I should note that we will revisit these targets as the Group evolves, and we expect to ‘ratchet’ them in a way that is aligned to value creation. In line with this, we will be specifically revisiting the target for the cash spend for the growth businesses, particularly in the UK, where we have the ambition to see reduced cash consumption in FY25. We will also test options for deploying more ‘capital lite’ approaches to achieving our growth objectives. We will work through this over 2H24 and as part of our planning for FY25. More precise guidance on these matters will be provided in due course.

I will now hand back to Glenn. As I do so, I do want to leave you with what we believe to be the key messages about the performance of the business:

- The Exchange business is performing well and is benefiting from improved operating leverage.
- The operating losses in Digital Growth are narrowing, and we believe we are on track to break even at the operating EBITDA level in June 2024.
- The rate of growth in International losses is starting to slow, and we will be reviewing opportunities to step down those losses as part of our FY25 planning.
- Our balance sheet settings are sound.
- We expect additional tail winds from our PEP program and by from rigorously applying our capital management framework.

Slide 30:

Now over to you Glenn to wrap up the formal part of our presentation.

Slide 31:

Group Managing Director and Chief Executive Officer, Glenn King

Thanks Scott.

As illustrated in our presentation and on Slide 31 we believe the economy still has areas of weakness although there are signs of improvement. Given this we remain focused on sustainable growth balanced against the need to deliver efficiencies.

Turning to Slide 32 with respect to our full year guidance.

Slide 32:

Excluding Smoove, our guidance for FY24 has been re-affirmed.

Slide 32:

To summarise PEXA is focused on execution to deliver sustainable value.

What does that mean for the second half?

- Maintaining the strength of the PEXA Exchange platform business.
- Continuing positive momentum with the Digital Growth business.
- Securing UK lenders onto the PEXA platform, leveraging our UK scale and improving the financial performance of Optima Legal and Smoove.
- Ensuring strong financial performance with efficiencies, AI investment and disciplined execution.

Slide 34:

In closing, PEXA is well placed to execute upon its strategic objectives and guidance.

As you can see from our presentation, there is more detail within the appendices of the Investor Pack but I will now conclude our formal presentation and Scott and I are happy to take your questions.

-Ends-

This release was authorised by the Group Managing Director & Chief Executive Officer

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